Advising the Congress on Medicare issues

MIPPA MA payment report

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MedPAC report on MA payments

- Mandated by Section 169 of MIPPA
- Three main tasks
  1. evaluate CMS's measurement of county-level FFS spending
  2. study the correlation between MA plan costs and county FFS Medicare spending
  3. examine alternate payment approaches and make recommendations as appropriate

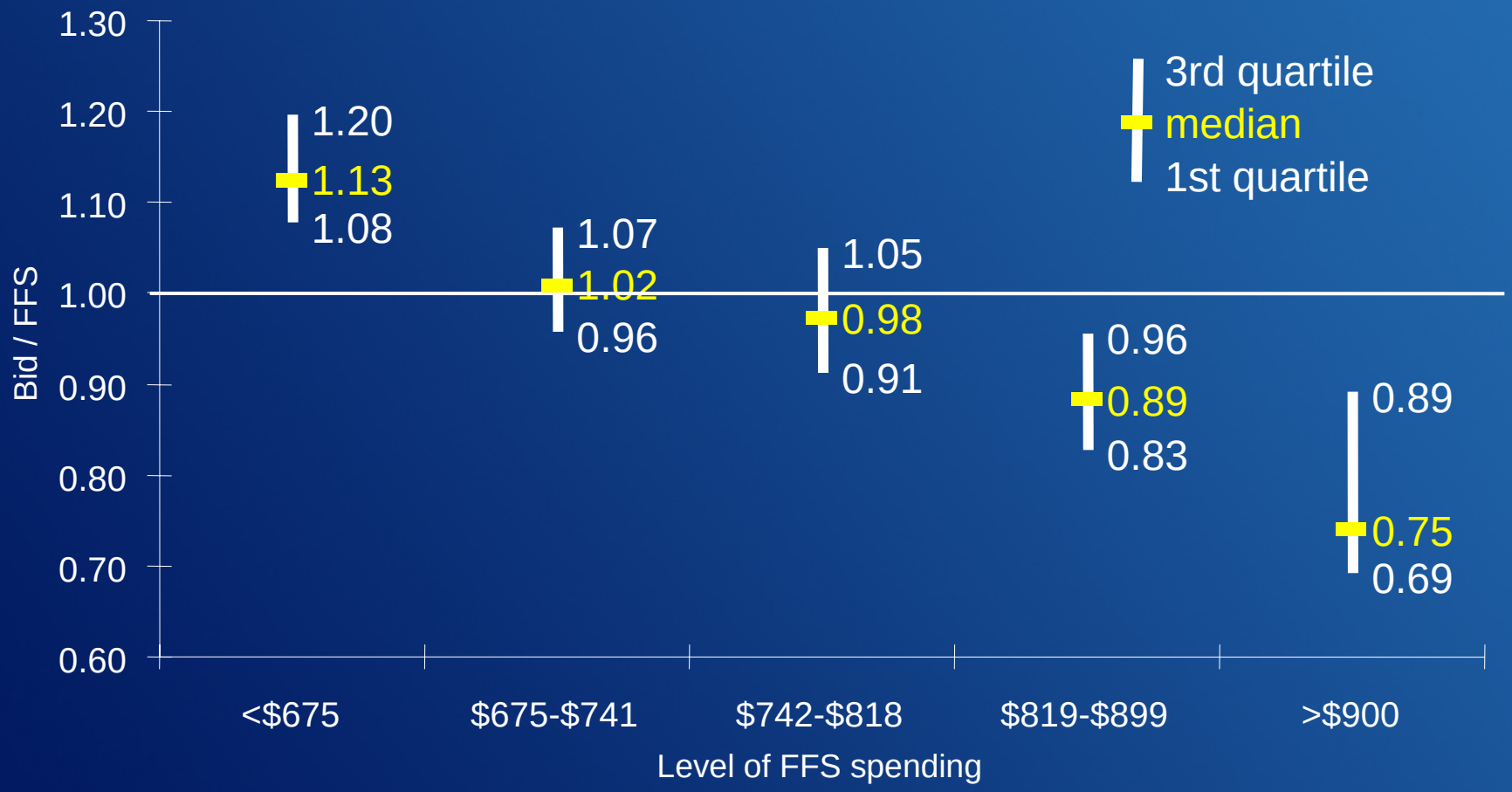
Calculation of county-level rates generally accurate: some issues

- Puerto Rico: estimation challenge (few beneficiaries have Part B)
- VA/DoD: incorporate new information and change county level estimates where warranted
- Ratchet: benchmarks only increase, regardless of county FFS expenditures
  - Over 1/3 of enrollees in ratchet counties
  - Significant dollars involved

Alternative approaches to MA payment: Using competitive bidding to set benchmarks

- Design features and behavioral response important, for example:
  - How is benchmark determined
    - Minimum bid, median, 75th percentile, etc.?
    - Upper or lower limit on benchmarks?
  - How will plans respond to the new bidding rules and what strategies will they use to deal with competition?
- Technical problem with simulation
  - No county level bids available
  - Current bids not good proxies
  - Limits quantitative simulations

Bids above FFS in low-spending areas; below FFS in high-spending areas



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Alternative approaches to MA payment: Summary of administrative options

	Benchmark		Benchmark/FFS		Availability	Avg. extra
	Min	Max	Min	Max	(any plan)	benefits
Current benchmarks (118% FFS)	$ 741	$1,366	1.01	1.83	100%	$96
Alternative benchmarks (100% FFS, saves $150 billion over ten years*):						
100% local FFS	$453	$1,285	1.00	1.00	80%	$75
Hybrid	618	926	0.72	1.36	82	59
75% local / 25% national blend	524	1,147	0.89	1.15	88	62
Input-price adjusted blend	618	926	0.54	1.56	94	38

Source: MedPAC analysis of CMS data.
Note: CBO has only scored 100% local FFS. Other options might start at similar savings, but shifts in enrollment patterns over time could reduce the savings.

Availability results for different measures and assumptions

	Beneficiaries	Current MA enrollees	MSA/HSA areas	2011 PFFS rules
Current benchmarks (118% FFS)	10%	10%	10%	99%
Alternative benchmarks (100% FFS, saves $150 billion over ten years*)				
100% local FFS	80%	84%	67%	77%
Hybrid	82%	85%	69%	79%
75% local/25% national blend	88%	90%	78%	85%
Input-price adjusted blend	94%	96%	88%	85%

* Note: CBO has only scored 100% local FFS. Other options might start at similar savings, but shifts in enrollment patterns over time could reduce the savings.

Payment modification to balance extra benefits across geographic areas

- Use of services in Medicare FFS high in some areas, low in others
- High-use areas more opportunities for MA to manage volume than low-use areas
- Current policy: Medicare retains 25% of difference between benchmarks and bids in all areas
- Could differentiate payments
  - increase Medicare share of difference in high-use areas
  - decrease in low-use areas

Illustrative example of policy to balance extra benefits across geographic areas

	High service use area	Low service use area
Bid as percent of benchmark	70%	90%
Difference	30%	10%
Extra benefits* current formula (Medicare retains 25%)	75% of difference = 22.5%	75% of difference = 7.5%
If Medicare retains:	60%	0%
Extra benefits* new formula	40% of difference = 12%	100% of difference = 10%

* Note: This is the rebate amount that the plan has to use to provide extra benefits to enrollees, the actual amount of extra benefits the enrollee receives will be reduced by the plan's load factor.

Transition from 118% FFS to 100% FFS benchmarks needs to be judicious

- Transition needed to limit disruption to beneficiaries
- Encourage high quality plans to stay in MA; pay differentially during transition
- A transition policy will lower savings estimate in ten-year window

Goals of program have shifted

Original goals

- Care coordination and innovation
- Lower cost to Medicare

Goals have shifted to

- Private plans in all areas; including areas that had not been financially viable
- Extra benefits through private plans to all

Result is today's MA program

- Encourages inefficient plans; raises costs to Medicare
  - Part B premium higher for all beneficiaries; in MA or not
  - Increases burden on taxpayers; hastens trust fund insolvency
  - Subsidize extra benefits for some; $3.26 for every $1.00 in PFFS
  - High quality plans available to only 50% of beneficiaries; 31% in rural areas

Topics for discussion

- Balancing the distribution of extra benefits across geographic regions
- Transition strategy
- Goals for the program
- Other issues